

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 DODE-00 PM-05 H-01 L-03 PA-01 /101 W
-----010582 032112Z /75

R 031345Z JUL 78
FM AMEMBASSY REYKJAVIK
TO SECSTATE WASHDC 8524
INFO AMEMBASSY COPENHAGEN
AMEMBASSY OSLO
AMEMBASSY STOCKHOLM
COMICEDEFOR KEFLAVIK IC

LIMITED OFFICIAL USE REYKJAVIK 0861

E.O. 11652: N/A
TAGS: EFIN, IC
SUBJECT: INCREASED SPECULATION ABOUT ANOTHER KRONA DEVALUATION

1. WITH NATIONAL ELECTION NOW OVER, MANY ICELANDERS BELIEVE THAT ANOTHER MAJOR DEVALUATION OF KRONA IS NOT FAR OFF. ALL POLITICAL PARTIES HAVE SIGNALLED THAT NEW GOVERNMENT WILL HAVE TO TAKE CSOME DRASTIC MEASURES IF THERE IS TO BE ANY HOPE OF GETTING ECONOMY BACK ON TRACK AND CUTTING BACK HIGH RATE OF INFLATION. ALTHOUGH POLITICAL LEADERS HAVE NOT SPOKEN PUBLICLY OF DEVALUATION AS POSSIBLE COURSE OF ACTION, IT IS THOUGHT THAT THIS WOULD NECESSARILY BE PART OF PACKAGE.

2. KRONA'S "DIRTY FLOAT" DOWNWARD WAS HALTED BY CENTRAL BANK SIX WEEKS AGO THEREBY MAKING CURRENCY EVEN MORE OVERVALUED THAN IT HAD BEEN. MEANWHILE WAGE AND PRICE PRESSURES ARE CONTINUING TO BE FELT WITH INCREASES ALMOST DAILY. EXECUTIVES OF ICELAND'S FISH FREEZING PLANTS, WHICH PRODUCE NATIONA'S DOMINANT EXPORT, HAVE AGAIN CALLED FOR
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DEVALUATION AS MEANS OF REMAINING SOLVENT. AS WAS THE CASE PRIOR TO FEBRUARY DEVALUATION, ICELANDIC CONSUMERS, FEARING THE INEVITABLE, HAVE REPORTEDLY STARTED TO GO ON BUYING SPREE FOR BIG-TICKET IMPORTED GOODS. THIS, OF COURSE, WILL MAKE DEVALUATION EVEN MORE NECESSARY AS COUNTRY' SHARPLY UNFAVORABLE BALANCE OF TRADE SITUATION DETERIORATES FURTHER.

3. WITH PRESENT GOVERNMENT IN CARETAKERSTATUS, IT IS
UNLIKELY THAT IT WILL ACT DECISIVELY IN ANY FIELD. HOWEVER,
DEVALUATION PRESSURES WILL PROBABLY INCREASE DURING
GOVERNMENT INTERREGNUM POINTING TO POSSIBILITY THAT NEW
COALITION WILL HAVE TO BITE BULLET SOON AFTER TAKING OFFICE.
BLAKE

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NNN

Message Attributes

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Concepts: KRONA, DEVALUATIONS
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Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
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Disposition Date: 20 Mar 2014
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Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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